

SECRET

19 May 1954

MEMORANDUM FOR MR. WILSON

1. Background papers on five items, currently involved in international trade control discussions in Paris, will be reviewed by the National Security Council on 20 May: (a) Bearings, (b) Rubber, (c) Transportation items, (d) Petroleum, and (e) Shipping.

2. We do not anticipate any objection in the NSC to the papers on bearings and rubber. Insofar as the intelligence is concerned, we concur in these papers. While intelligence indicates that rubber is clearly strategic, there are other overriding arguments.

3. In the discussion of transportation items, Defense will probably argue for quantitative control on rails. The majority view is that the US should not argue for this if it weakens our negotiating position on other items. Intelligence seems to indicate that this is a marginal case. While the Bloc desires to construct new rail lines and has attempted to import rails, it could produce sufficient quantities itself if it were given sufficient priority. There is no deficiency of fabricating facilities.

4. On petroleum, Defense will probably argue against the view that certain items be decontrolled. These include: crude oil, residual fuel oil, motor gasoline, and a few other minor items. Our intelligence indicates that if crude oil were decontrolled, the Bloc could not stockpile imports in significant quantities relative to wartime requirements, but that in peacetime imports would be of value in the Soviet Far East as a saving on the long rail haul from the Western USSR and as a supply for exports to China.

5. On residual fuel oil, the Bloc would not be short in wartime. If there were heavy damage to production facilities, the Bloc could largely substitute crude oil for residual fuel oil. Therefore, imports of this item from the West probably would not be required to offset a critical wartime deficiency. Imports of this item into the Far East would be of value to the Bloc for much the same reasons as outlined on crude oil above.

6. On motor gasoline, heavy damage would result in a shortage for Bloc military requirements. Intelligence indicates that the Bloc is currently stockpiling this item; but we do not know whether imports

SECRET

SECRET

from the West, if available, would be assigned to stockpile in significant quantities. If war were anticipated in the near future, it certainly would be stockpiled. In addition to this advantage to the Bloc, imports would be very useful in the Soviet North and Soviet Far East, both to relieve the transportation burden and, in the Far East, to facilitate exports to China. On the other petroleum items (certain inhibitors, etc.), our intelligence indicates that supplies will be adequate in peacetime and wartime.

7. In regard to the "Shipping Controls" item, a CIA expert has presented a large part of the intelligence used in establishing the US proposed quota on sales of ships to the Bloc. This quota is based largely on a normal replacement rate. The intelligence appraisal contained in the report to the NSC follows:

"Analysis of pertinent intelligence (including joint US-UK) indicates that Soviet Bloc facilities capable of producing ocean-going vessels continue to be devoted almost wholly to naval construction. The Soviet Bloc has reported increasingly to free-world sources for the purchase, repair and even routine maintenance of ships to avoid diverting Bloc manpower, materials and facilities from its naval program. The Department of Defense has estimated that the existing operational Soviet Bloc tonnage already exceeds minimum Soviet requirements for an all-out war. Virtually all merchant ships sold in recent years by free world nations to the Bloc have, at one time or another, been assigned to trade with Communist China and adjacent areas supporting the Korean and Indochina conflicts. The US view has been throughout to reflect in the proposed quota for ship exports a normal replacement rate for the Soviet Bloc merchant fleets and to permit even some justifiable increases for peaceful purposes by providing a small degree of flexibility in the 88,000 GRT ceiling proposed."

No arguments in the NSC over this item are anticipated.

- 2 -

SECRET